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ABU DHABI RESIDENTIAL SNAPSHOT

2018

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Real estate in Abu Dhabi continues to feel downward pressure across most sectors due to the lingering impact of job losses and consolidation activity witnessed during 2016/2017. With VAT being introduced across the UAE, a marginal negative impact has been felt in Abu Dhabi's retail sector, whereas other asset classes are yet to register a shift in dynamics.

Prices and rents are softening across the board, however , the pace is starting to decelerate. With oil prices witnessing sustained upward momentum and government spending on the rise, these positive forces are driving up the overall economic sentiment. Although a clear turnaround is distant, we expect this deceleration to continue in the mid-term followed by a very gradual growth in prices and rents.

Nevertheless, other factors such as a steady increase in supply over the 12-24 months is expected to impact recovery, although the range of products now on offer is targeting the mid-market segment, thus marginally enabling absorption.

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This publication

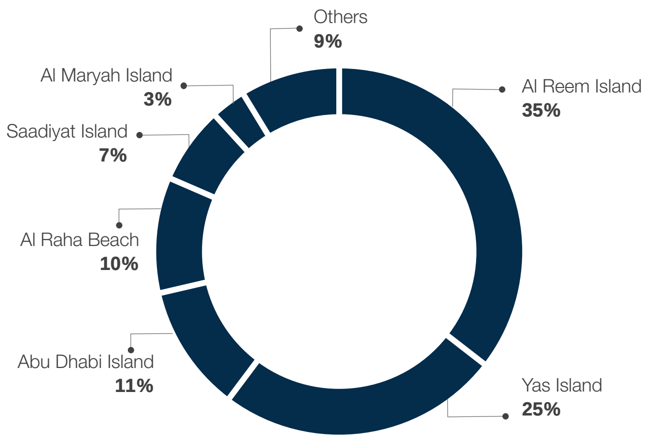
This document was published in April 2018. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Residential supply

Prominent completions over H2 2017 saw steady absorption including Al Hadeel at Al Bandar, Bloom Marina and Hidd Al Saadiyat. Key development launches such as Marina Rise Tower and Waters Edge have also witnessed traction in off-plan take-up as they offer compact products at lower entry points along with lucrative payment plans.

> Over 9,200 units are scheduled for completion in 2018, although the number of actual deliveries is likely to be notably lower as handover dates typically vary significantly from projected completion dates. Over the next 3 years, almost 60% of upcoming supply will be concentrated on the Reem and Yas Island.

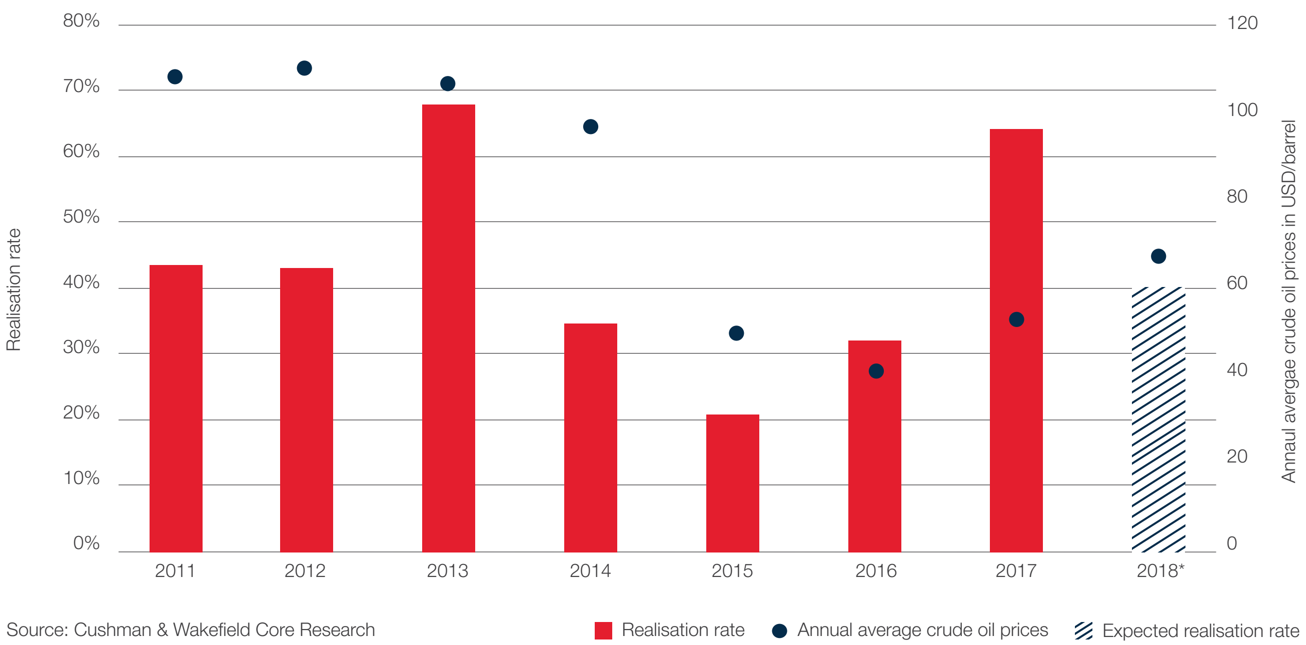
Abu Dhabi upcoming residential supply distribution: 2018-2020



Realisation rate analysis

As the emirate has been strongly dependent on its hydrocarbon revenues, the realisation rate of Abu Dhabi's residential stock has historically had a strong correlation with crude oil prices. The trend of rising oil prices witnessed over 2010-2012 translated to a steady realisation rate of nearly 45%, peaking at an optimistic 68% in 2013. Similarly, realisation rates plummeted to as low as 21%, mirroring the downfall in oil prices witnessed between 2014 and 2016 due to cautious behaviour displayed by developers. However, in 2017, as many developers could not hold their stock any longer due to cashflow strains, realisation rate surged to over 64%, despite oil prices only showing a marginal recovery. In other words, the supply anomaly witnessed in 2017 was more a consequence of a bottleneck building up over the previous two years rather than a conscious attempt to add significant new stock to the contracting market. As the market slowly responds to stable oil prices, we expect the realisation rates to stabilise around 50% in the near term.

Realisation rate vs. Average crude oil prices



Source: Cushman & Wakefield Core Research

Realisation rate is the ratio of total units delivered by units announced in a given year.

Residential demand

Most off-plan acquisitions are from investor buyers, who continue to be drawn to lower priced products due to the expected high level of yields and easier payment plans. However, despite rental migration to these new areas, overall tenant pool growth is expected to be much slower - resulting in yield contraction from the current high levels that many investors falsely expect to continue post hand-over. Eventually, this decline in yields will reduce investor demand, in turn pulling sales prices further down over the mid-term.

Net rental absorption

Over the last few quarters, rental stock is witnessing a relatively steady take-up, particularly in areas dominated by new stock such as Reem Island and few projects on the Abu Dhabi mainland. This may elude the market with a perception of positive absorption figures, along with a rise in number of overall tenants in the city. However, upon closer scrutiny, this is just a displacement of a portion of the total tenant pool from outer areas to central locations. Districts and developments which were previously inaccessible to tenants, either due to limited product offerings or because of higher entry points, are now becoming accessible to a wider occupier base, triggering this shift.

With the tenant pool almost staying the same (in some cases shrinking, such as in the high-income segment), landlords who were not fast to react to the changing market scenario are witnessing higher vacancy levels. In other words, the higher take-up in new and centrally located stock is not largely due to new tenant demand but the result of slower performing districts and uncompromising landlords.

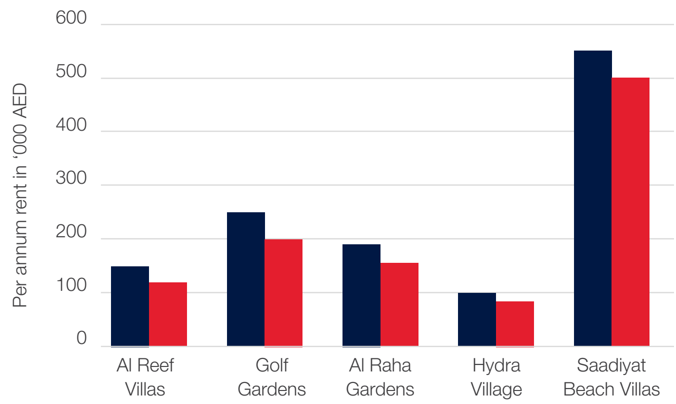
Residential rents

The overhang of downsizing activity across the private and public domain and the resulting contractions in housing allowances led to further weakening of rents over the last few quarters. Villa districts continue to underperform due to a shift in occupier preferences led by contracting housing allowances, with average rental declines hovering over 17% while apartment communities displayed relative resilience at 7% drops.

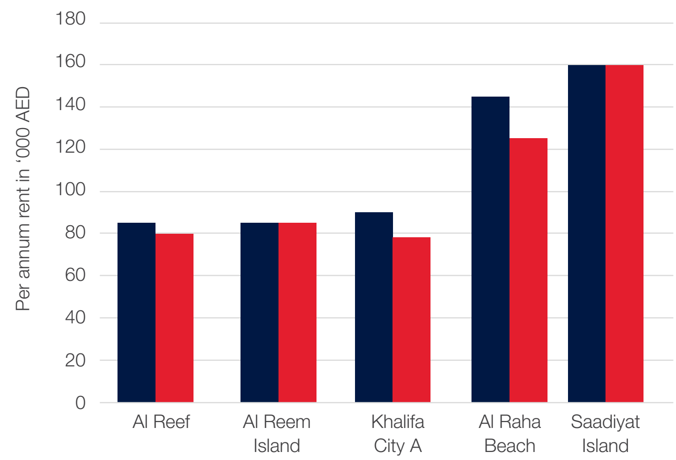
Areas further away from the city centre, such as Al Reef Villas and apartments in Khalifa City A saw the largest declines as tenants preferred to relocate to Abu Dhabi main island to capitalise on falling rents and reduce the commute to the city.

We forecast new supply on Reem and Yas Island to add further downward pressure on rents within these districts. Although Saadiyat Island is also expected to see a significant increase in residential supply. Rental rates in the area are likely to be resilient due to its growing appeal as a lifestyle destination and a growing art and cultural hub.

Average villa rents H1 2017 vs H1 2018



Average two bed apartment rents H1 2017 vs H1 2018



Source: Cushman & Wakefield Core Research

H1 2017 H1 2018

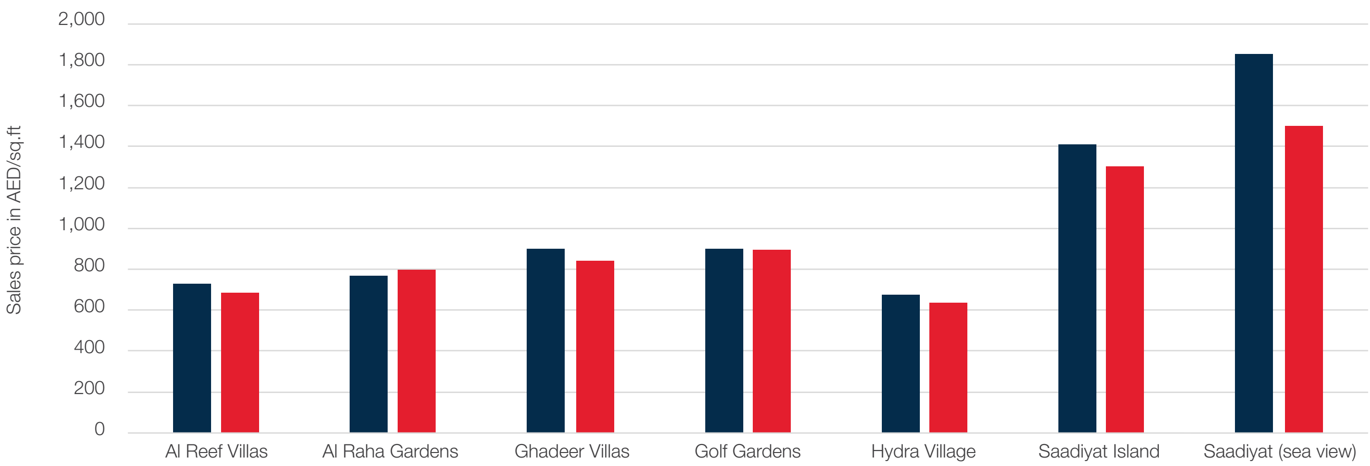
Residential sales

Sales prices also continued to weaken across most communities, 8% on average across the city over the past 12 months. Most sales activity is concentrated in the off-plan segment where attractive deals and newer products are to be found. Prices in various communities such as Al Bandar, Al Zeina and Saadiyat appeared to have improved slightly due to numerous hand-overs of quality off-plan projects such as Al Hadeel and Mamsha al Saadiyat. These hand-overs achieved steady absorption levels although older units continued to see sales prices soften.

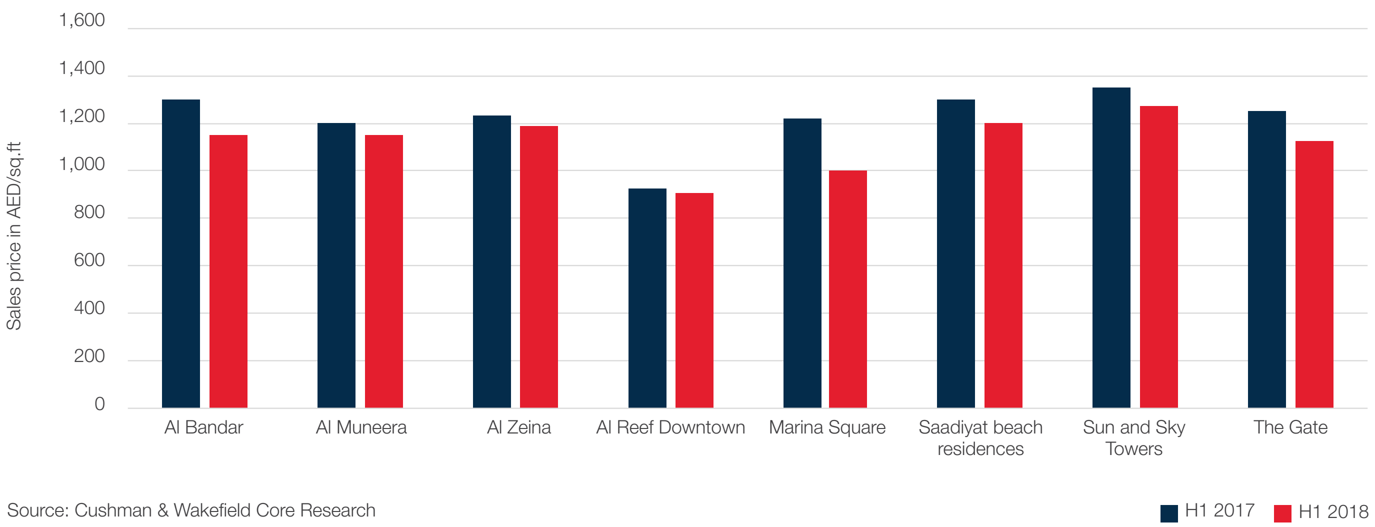
The secondary sales market continues to be muted as potential buyers remain on the side-lines waiting for the market to fall further. Existing owners who bought properties at the peak are becoming reluctant landlords, looking to rent to an already limited tenant pool, rather than selling much below the acquisition prices. This gap in unrealised expectation vs. market reality is causing the secondary sales market to see long transaction timelines and fewer concluded transactions.

> Despite downward pressures due to oversupply concerns, the geographical waterfront limitations of the core islands of Saadiyat, Reem as well as Yas, will potentially make these districts restricted for future growth, curtailing the oversupply spread - unlike the current case in Dubai.

Villa sales H1 2017 vs H1 2018



Apartment sales H1 2017 vs H1 2018



Source: Cushman & Wakefield Core Research

Who is buying in Abu Dhabi and where?

The city has been a stronghold for local and GCC buyers, particularly from KSA, and they continue to occupy a dominant share - although, undeniably the total pool of buyers has shrunk. Despite the downturn and ongoing dampened economic sentiment, many regional buyers continue having faith in the long-term prospects of the city. This faith is fundamentally driven by the fact that Abu Dhabi is comfortable with hydrocarbon reserves to fuel its future growth. With oil prices recovering steadily throughout 2017 - YTD 2018, and umpteen government announcements, its diversification impetus further bolsters its economic perception in the regional and global markets.

Within the region, buyers also perceive Abu Dhabi to be a relatively smaller market where decent stock has historically been in shortage and better products have consistently outperformed the market. Despite downward pressures due to oversupply concerns, the geographical waterfront limitations of the core islands of Saadiyat, Reem as well as Yas, will potentially make these districts restricted for future growth, curtailing the oversupply spread - unlike the current case in Dubai. With the pace of new deliveries slowing down, supply levels are gradually expected to align with the market conditions in the mid-term. Master developers are also controlling overall market inventories by building limited stock and passing on the development risk to private players through large plot sales, phasing out development time-lines. Private developments are expected to further increase product offerings and offer innovative acquisition plans such as rental to ownership.

Understandably these factors make the Abu Dhabi market a mid to long-term investment avenue, driving cash-rich local and regional buyers/investors to lock-in at the current low entry prices. A wide variety of compact as well as better build products that are now on offer, give traditional investors the choice to expand their portfolio. However, because of this long-term horizon, expatriate movement to homeownership remains limited due to the current uncertainty surrounding the employment market and flexibility offered by the ongoing softened and attractive rental market.

For end-user buyers, a strong preference is seen for prime gated villa communities such as Saadiyat Islands. Given the recent history of this location as a prime residential investment zone, it is gradually creating a momentum as more HNWI end-users and investors look towards this area for long term capital preservation and lifestyle amenities. This sentiment is further reinforced by its surrounding of the burgeoning cultural district and superior quality residential stock. The recent announcement of the Aldar and Emaar partnership in Saadiyat Grove, reinforces the prime nature of this district.

Reem Island on the other hand, is predominantly an investor driven market due to its lower entry prices and relatively higher returns on the back of steady tenant demand. As the island gains traction and liquidity due to the pipeline of supply deliveries, coupled with easy accessibility to Abu Dhabi main island and upcoming commercial hubs on Maryah Island, the area is likely to witness sustained tenant interest. Yas Island, due to its lifestyle, leisure and retail offerings is attracting both investors and end-users from a mix of GCC and the wider Arab region. However, on the downside, mid to long term capital and rental appreciation is expected to remain under pressure due to this rising level of stock.

Abu Dhabi market performance

Drivers

- Ongoing stability in oil prices
- Availability of newer, affordable products and the overall softening rental market aiding tenants in housing cost savings
- Diversification measures and government stimulants up-ticking market sentiment
- The pace of sale and rental price decline decelerating. Although a clear turnaround is unlikely, this deceleration is expected to continue in the near term, although subject to controlled supply deliveries

Deterrents

- Most of the absorption is displacement of tenant demand rather than new take-up
- Most buyers are investors instead of end-user occupiers transitioning to home-ownership
- Pool of end-user occupiers not growing at expected levels, particularly at the pace of increasing a vacancy and new supply levels
- New lower priced off-plan stock being absorbed relatively well due to investor expectations of sustained rental demand and higher yields. However, if tenant demand of these projects is insufficient at handover, this supply surge is expected to exert considerable downward pressure on rents, leading to faster yield compression and eventually pulling sales prices down over the mid-term

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